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RUEHBJ/AMEMBASSY BEIJING 1925
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RUEHBS/USEU BRUSSELS 1176
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RUCNCIS/CIS COLLECTIVE
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RUEHDBU/AMEMBASSY DUSHANBE 1225
RUEHIL/AMEMBASSY ISLAMABAD 2020
RUEHBUL/AMEMBASSY KABUL 1978
RUEHLO/AMEMBASSY LONDON 1799
RUEHML/AMEMBASSY MANILA 0139
RUEHNE/AMEMBASSY NEW DELHI 1997
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RUEHFR/AMEMBASSY PARIS 1595
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SUBJECT: IMPROVING CONSUMER CONFIDENCE IN THE TAJIK BANKING SECTOR

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¶1. Summary. The Tajik banking sector continues to develop rapidly, with over 35 percent growth since 2005. However, consumer confidence in the banking system remains weak, resulting in an extremely low deposit rate and little money available to feed economic investment. Tajikistan's top bankers also fail to recognize the importance consumer confidence plays in developing the banking sector and the overall economy, preferring to look for outside investment to bolster their institutions. Interest rates for loans in Tajikistan range from 18 to 30%, with little long-term financing available, presenting a significant barrier to investment. An Embassy-sponsored banking roundtable February 7 gathered the "Who's Who" of banking in Tajikistan to explore potential improvements the government and banks can make, such as improving banking products and developing deposit guarantees. Local officials and businessmen seemed reluctant to engage in active problem solving, spewing self-serving statements in lieu of forward-thinking ideas. End Summary.

PEOPLE SAVE MONEY EVEN IN A POOR COUNTRY

¶2. Several roundtable participants offered the excuse that because Tajikistan is poor, people immediately use whatever money they have for consumer purchases. In fact, consumer spending shot up dramatically, increasing more than 16 percent in the last three years. Many Tajiks continue to live hand-to-mouth, as job creation and domestic wages remain low, while prices for energy and basic foodstuffs have increased. However, research conducted by the European Bank for Reconstruction and Development has shown that many individuals do in fact have savings but choose to keep their funds in cash, gold, property, or cattle -- anywhere but in the banks. Official remittances flowing through the banks exceeded \$1.2 billion in 2006, but little of this money remained in the banking sector as deposits.

I'D RATHER USE A PIGGY BANK

13. Public use of the banking sector greatly increased in 2006, as total deposits increased 45% to USD 230 million, according to Tajik National Bank Deputy Chariman Juma Eshov. As Jim Egan, Chief Executive Officer of The First MicroFinanceBank revealed, however, the growth in total deposits is driven mostly by businesses rather than individuals. Tajikistan still has a very low overall deposit rate as a percentage of official gross domestic product, climbing to 14 percent in 2006.

14. Individuals have several good reasons to keep their money out of the Tajik banking system:

- Tajik banks have governance and transparency issues;
- Banks are exposed to undue political and regulatory influence;
- Businesses do not work entirely within the law, bypassing tax and customs regulations -- depositing funds in banks, therefore, puts them at risk of discovery by authorities;
- The public retains a negative historical perception of banks, with concern about their future stability;
- Cotton sector debts mean farmers owe futures companies up to \$300 million.

15. Clients have limited access to banks: 200 total bank branches serve seven million clients, with banks concentrated in urban areas. Rural districts generally lack bank branches outside central cities, and just getting to the banks is difficult for village residents. With huge remittance flows going to rural areas, banks must figure out how to channel these funds into the banking sector as deposits. Valsa Shah of the British Department for International Development presented case studies of programs in other countries where they provide grant facilities to banks to stimulate rural outreach, in order to encourage a more productive use of remittances. Her proposal found some support among the roundtable participants, which may lead to the program's start-up in Tajikistan.

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16. According to Egan, Tajik banks and the government can take several steps to improve confidence by creating new products and better marketing existing structures:

- Tajik banks need to create a banking association that can lobby the government at the industry level, support the education and training of a future cadre of bankers, and market the benefits of banking to the population.

- The government's current deposit guarantee scheme provides only limited coverage in case of bank default. Only deposits by individuals receive coverage; businesses are not covered. Also, while the scheme exists, the public is not aware of the guarantee and how it works, as government and banks have not publicized the process.

- Banks need to create a secondary level of banking outlets to reach into rural areas. Villagers travel to central locations to collect remittances sent by family members, or send couriers to collect the remittances for the village. Banks should set up a mechanism that would encourage villagers to leave some of these funds in the banks as small savings.

- The government should develop a securities market that would allow stock trading and printing of government bonds in which banks could invest.

WHEN THE ECONOMY GROWS, THE BANKING SECTOR WILL GROW

17. Several leading Tajik bankers, including one traveling to the United States on an upcoming International Visitor Program for Tajik bankers, denied that banks need to do anything to make the sector more attractive to consumers. They asserted that when the economy grows and people have more money they will put it into the banks, seemingly missing the point that a strong banking sector drives economic growth. Tajik bankers also do

not fully understand that only a transparent bank in a healthy banking system can attract business investments. The head of Tajiksodirot Bank went so far as to ask the Embassy to pass a letter in Russian addressed to Bill and Melinda Gates asking for investment in his institution.

¶18. The introduction of new foreign banks in the country would have a positive impact on consumer confidence and the stability of the sector. At present a branch of Iran's Tejerat Bank and representative offices of Kazakhstan's TuranAlemBank and Kazkommertzbank function in Tajikistan. In all, Tajikistan's banking system includes nine commercial banks, one bank with foreign investments, nine credit societies, one non-bank financial organizations and some 55 other credit organizations, according to the National Bank.

¶19. Private banks are actually innovating in several ways to strengthen the banking sector. In 2006, the number of debit card holders grew by 14,000, while the number of ATM machines increased to 65. Credit card penetration exceeded 0.1% of the population, topping 11,700 users. Several stores have begun installing point-of-sale credit/debit card machines for consumer purchases, which work when the Tajikistan's aging phone lines work. Banks offer 18%-20% interest rates on one-year deposits, and up to 14% for shorter-term deposits. The microcredit market is booming, as international donors combine to provide \$18 million in funds for loans to over 63,000 people, according to the Asian Development Bank.

¶10. The National Bank has taken the lead on development by creating a Medium-Term Strategy for the Banking Sector which outlines in broad strokes all aspects of policy reforms needed. They have proposed increasing the minimum capital requirement for banks from \$5 million to \$15 million.

¶11. U.S. technical assistance provides key support to the Tajik

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banking sector. A U.S. Agency for International Development-funded project provides vital technical assistance and training to the National Bank and commercial banks, promoting policy reforms and transparent implementation of regulations. The U.S. Agency for International Development implementer, BearingPoint, has agreed to host a continued series of working-level meetings to continue the dialogue on banking sector reforms. An International Visitors Program will take five leading Tajik bankers to the U.S. in February to look at governance and banking systems.

¶12. Comment: Tajikistan has seen remarkable progress in banking sector reform in recent years, but a certain naivete about investment and the role of banks still pervades the conventional wisdom. If Tajik banks fail to realize that consumer confidence can help boost economic growth, and not just vice versa, they will miss out on an important opportunity to bring their sector in line with international banking standards -- and make Tajikistan more attractive to foreign investors, who need a reliable local financial institution for local business operations. Many decision makers in Tajikistan implement changes very slowly and reluctantly -- there exists no culture of innovation or entrepreneurship. Post hopes the upcoming International Visitors Program will infuse Tajikistan's top bankers with enthusiasm for more free market and consumer-oriented ideas, and plans to engage in a series of follow-up events after their return. End Comment.
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